

ANNUAL
REPORT
1976

file

board of directors and management

BOARD OF DIRECTORS

*L. C. WEBSTER
Chairman of the Board
The Northern Life Assurance Company of Canada

*M. TREMBLAY
Vice-Chairman of the Board
The Northern Life Assurance Company of Canada

*G. L. BOWIE
President
The Northern Life Assurance Company of Canada

*A. S. LABATT, C.A.
Vice-President
The Northern Life Assurance Company of Canada

*S. ROCHELEAU
Vice-President
The Northern Life Assurance Company of Canada

R. M. IVEY, Q.C.
Chairman of the Board
Alpak Products Limited

**F. W. P. JONES
Financial Consultant

**D. D. C. McGEACHY
Corporate Director

W. A. McKENZIE
President
Admac Holdings Limited

**R. W. MITCHELL, Q.C.

*L. F. STEVENS, F.C.A.
President
Alpak Products Limited

**O. H. WARWICK, M.D., F.R.C.P.

*Member of Advisory Committee

**Policyholder Director

MANAGEMENT

G. L. BOWIE
President

A. K. ARCHER, F.S.A., F.C.I.A.
Vice-President and Secretary

D. A. BISSETT, LL.B.
Vice-President, Investments and Treasurer

D. W. COLEMAN
Vice-President, Marketing

J. D. McFARLANE, F.S.A., F.C.I.A.
Vice-President,
Insurance Operations and Actuary

L. A. PARÉ, C.A.
Vice-President, Financial Services

C. D. HOLLAND
Director, Group Operations

J. W. HUTTON, F.S.A., F.C.I.A.
Director, Financial Analysis

R. C. ARMSTRONG, F.L.M.I.
Manager, Group Pensions

S. E. ATKINS
Manager, Computer Operations

J. M. BEE, C.A., F.L.M.I.
Comptroller

G. K. S. BRECKENREID
Manager, Sales Promotion

F. S. BRIEN, M.D., F.R.C.P.(C)
Medical Director

A. A. CAPITANO, F.S.A., F.C.I.A.
Research Actuary

T. S. EEKHOFF, F.L.M.I.
Manager, Policy Service

E. B. FOTHERINGHAM, F.L.M.I.
Manager, Data Processing

J. F. FOX, F.L.M.I.
Manager, Head Office Services

D. F. FROST, F.L.M.I.
Manager, New Business and Benefits

R. J. GILLILAND, F.L.M.I.
Manager, Group Life and Health

M. E. GRANT
Manager, Actuarial

J. B. HEPBURN
Manager, Source Reporting

C. M. LeMOINE
Manager, Sales Training

J. B. LUTMAN, F.L.M.I.
Internal Auditor

R. R. D. McGREGOR, C.L.U.
Superintendent of Agencies

K. F. MUELLER
Manager, Accounting

C. F. SHANTZ
Manager, Personnel

D. J. TYRRELL, F.L.M.I.
Superintendent, Agency Administration

A. C. VANDELOO, F.L.M.I.
Manager, Systems and Services

D. E. WELLMAN
Director of Agencies

HEAD OFFICE

380 Wellington Street
LONDON, Ontario N6A 4G3
(519) 439-0171



A Member of the Prenor Group Ltd.

president's report

G. L. Bowie, President

The year 1976 was highlighted by continued growth and improved financial results.

A new individual life rate manual and field compensation package were introduced in March. The sale of non-participating plans has been, and is being emphasized in order to provide a further opportunity to improve the participating account.

A most important development last May was the presentation and approval by the directors of a Statement of Corporate Mission and Strategies which will serve as a guide for management throughout the 1970's. The strategies embrace market, product, sales force, head office organization, and investment policy.

In September, the centralization of all premium billing and collection activities commenced. The transition has gone well and a reduction in staff has been effected in the branch offices. In September, as well, a decision to discontinue the sale of individual disability income insurance was made following a thorough study of pricing, compensation, and competitive plans. Our branch managers and general agents now are authorized to make individual brokerage arrangements with companies which specialize in the marketing of these products.

Since the Spring of 1974, a project group has been preparing for the ultimate in the economical and efficient use of a data processor — the sharing of a facility by many users via the data servicer mechanism. The process has been time-consuming and has covered the selection of a data servicer, preparation for the new environment, the education of data processing personnel, and the conversion of programs, files and documentation. The work is proceeding in an orderly fashion, with final conversion scheduled for late 1977.

BUSINESS ACTIVITY

Life insurance sales amounted to \$397 million in 1976, an increase of 21% over 1975 sales of \$328 million.

New business in 1976 produced premiums of \$3.7 million, a decline of \$259,000 from 1975, largely in the annuity area. Premiums from other business showed an increase of \$1.4 million, or 9%, for the year.

At the end of 1976, individual life insurance in force was \$1.1 billion, and group life insurance \$511 million, for a total in force of \$1.6 billion. The gain for the year totalled \$162 million, or 11%.

INCOME AND EXPENSES

Income from all sources was \$29.7 million, an increase of \$2 million over 1975. Premium income increased by 6% to \$20.2 million while income from investments rose by 11% to \$9.5 million. The net yield rate on investments improved to 7.73% from 7.24% a year earlier. Good control was maintained over operating expenses which, at \$8.2 million, showed no significant increase over 1975.

POLICYHOLDERS

The amount paid out or set aside for policyholders and beneficiaries was \$14.2 million, an increase of \$2.4 million over 1975. This amount included \$2 million in dividends. In addition, \$6 million was allocated to policy reserves for the future payment of claims.

ASSETS

Total assets amounted to \$137 million at December 31, 1976, an increase of \$9 million or 6% for the year.

Bond and debenture holdings increased \$5 million and mortgage holdings \$3 million.

THE PERSONAL INSURANCE COMPANY OF CANADA

During 1976, The Personal Insurance Company's direct premium written volume increased more than four times; the quality of business was improved greatly, and acquisition costs were reduced significantly. As a result, the Personal achieved profitability one year ahead of target. This performance demonstrates that the Personal concept of providing complete personal insurance to members of groups has been proven in the marketplace through consumer acceptance and that it is a practical marketing method.

RETAINED EARNINGS

Retained earnings stood at \$7.1 million at year-end, an increase of \$3.3 million during the year. This increase is made up chiefly of the Company's gain for the year of \$806

thousand (\$243 thousand in 1975), a net adjustment of \$463 thousand to the investment in The Personal Insurance Company of Canada, and a transfer of \$3 million from the investment reserve. The increase was reduced by reason of the write-down of \$783 thousand on selected stocks and the payment of dividends to shareholders of \$150 thousand.

ORGANIZATION

Effective January 1976, a Group Operations Division was established with C. D. Holland as Director. The result has been a more responsible and efficient approach to planning, reporting and control by Division personnel.

I wish to note the retirement of Mr. C. H. Bastia, Superintendent, Agency Administration, who joined the Company in 1932. Mr. Bastia contributed in an outstanding manner to the development of the agency force during a period of 45 years.

APPRECIATION

On behalf of the directors, I extend sincere thanks to the field organization and the branch and head office staffs for their contribution to the very satisfactory results achieved in 1976.

OUTLOOK

The economic and political environment in 1977 will create new challenges for Northern Life. While inflationary pressures will continue to moderate, the relaxation of the controls program and political uncertainties will require a positive and constructive response from all of Canadian industry. With our developing head office staff and field organization, we believe we can rise to the occasion. We expect further improvement in 1977 to our unallocated surplus position and, with this strong base, we will be in a good position for further profitable growth in future years.



President

statement of income

year ended December 31, 1976
(with comparative amounts for 1975)

	1976	1975
INCOME		
Premiums (note 2)	\$20,193,051	\$19,119,165
Net investment income (note 3)	9,490,469	8,552,445
	<u>29,683,520</u>	<u>27,671,610</u>
DISPOSITION OF INCOME		
Death and disability claims	5,219,017	4,772,339
Maturity, surrender and annuity payments	6,119,771	4,423,043
Interest on funds on deposit	811,140	740,196
Increase in policy reserves	6,081,485	6,862,804
	<u>18,231,413</u>	<u>16,798,382</u>
Operating expenses		
Head office	2,551,705	2,355,776
Agency	4,097,894	4,474,578
Other	1,554,202	1,366,348
	<u>26,435,214</u>	<u>24,995,084</u>
OPERATING INCOME	<u>3,248,306</u>	<u>2,676,526</u>
Dividends to policyholders	2,007,973	1,876,295
Income taxes	272,000	210,000
Premium taxes	328,633	291,937
	<u>2,608,606</u>	<u>2,378,232</u>
NET INCOME FROM OPERATIONS	<u>639,700</u>	<u>298,294</u>
Share of net income (loss) of subsidiary company (note 4)	210,647	(209,188)
Share of excess (deficiency) of issue price of treasury shares of subsidiary over net book value of the underlying net assets of subsidiary at date of issue (note 4)	(44,030)	153,675
	<u>166,617</u>	<u>(55,513)</u>
NET INCOME FOR THE YEAR	<u>\$ 806,317</u>	<u>\$ 242,781</u>
ANALYSIS OF NET INCOME		
Participating account	\$ 477,664	\$ (257,616)
Non-participating account	(74,681)	139,830
Shareholders' account	403,334	360,567
	<u>\$ 806,317</u>	<u>\$ 242,781</u>

(See accompanying notes to the financial statements)

5 years of growth

	1976	1975	1974	1973	1972
NEW LIFE INSURANCE (\$ million)					
Individual	166	171	159	139	139
Group	231	157	164	79	42
	<u>397</u>	<u>328</u>	<u>323</u>	<u>218</u>	<u>181</u>
LIFE INSURANCE IN FORCE (\$ million)					
Individual	1,074	1,005	925	850	858
Group	511	418	343	250	235
	<u>1,585</u>	<u>1,423</u>	<u>1,268</u>	<u>1,100</u>	<u>1,093</u>
STATEMENT OF INCOME (\$ thousand)					
INCOME					
Premiums	20,193	19,119	18,141	18,189	13,597
Net investment income	9,490	8,552	7,495	6,252	6,296
	<u>29,683</u>	<u>27,671</u>	<u>25,636</u>	<u>24,441</u>	<u>19,893</u>
PAYMENTS AND EXPENSES					
Benefits paid	12,150	9,935	8,558	7,564	6,518
Increase in policy reserves	6,081	6,863	7,180	8,742	4,707
Operating expenses	8,204	8,197	7,676	7,359	6,780
	<u>26,435</u>	<u>24,995</u>	<u>23,414</u>	<u>23,665</u>	<u>18,005</u>
OPERATING INCOME	<u>3,248</u>	<u>2,676</u>	<u>2,222</u>	<u>776</u>	<u>1,888</u>
Dividends to policyholders	2,008	1,876	1,689	1,495	1,346
Income taxes	272	210	(24)	83	195
Premium taxes	328	292	261	239	215
	<u>2,608</u>	<u>2,378</u>	<u>1,926</u>	<u>1,817</u>	<u>1,756</u>
NET INCOME (LOSS) FROM OPERATIONS	<u>640</u>	<u>298</u>	<u>296</u>	<u>(1,041)</u>	<u>132</u>
NET INCOME (LOSS) FROM SUBSIDIARY'S OPERATIONS	<u>166</u>	<u>(55)</u>			
NET INCOME (LOSS) FOR THE YEAR	<u>806</u>	<u>243</u>	<u>296</u>	<u>(1,041)</u>	<u>132</u>
DIVIDENDS TO SHAREHOLDERS (\$ thousand)	<u>150</u>	<u>150</u>	<u>150</u>	<u>150</u>	<u>150</u>
TOTAL ASSETS (\$ thousand)	<u>136,775</u>	<u>128,488</u>	<u>125,609</u>	<u>116,106</u>	<u>105,726</u>
EQUITY (\$ thousand)					
Share capital	1,000	1,000	1,000	1,000	1,000
Retained earnings	7,146	3,809	7,034	9,387	10,578
Investment reserve	5,700	8,700	6,000	3,500	3,500
	<u>13,846</u>	<u>13,509</u>	<u>14,034</u>	<u>13,887</u>	<u>15,078</u>
RATE OF RETURN ON INVESTMENTS	<u>7.73%</u>	<u>7.24%</u>	<u>6.83%</u>	<u>6.16%</u>	<u>6.17%</u>

balance sheet

December 31, 1976

(with comparative amounts for 1975)

	1976	1975
ASSETS		
Bonds and debentures (note 5)	\$ 59,276,826	\$ 54,450,484
Stocks (notes 5 and 7)	6,732,005	7,951,690
Mortgages (note 5)	50,255,036	47,088,219
Policy loans	12,371,347	11,452,532
Investment in subsidiary (note 4)	1,795,601	1,451,180
Income producing real estate (note 5)	1,212,057	1,223,857
Cash	749,237	935,791
Accrued investment income	1,975,347	1,860,932
Premiums in course of collection	597,425	670,561
Segregated funds (note 5)	1,809,903	1,402,456
	<u>\$136,774,784</u>	<u>\$128,487,702</u>

On behalf of the Board:

L. C. WEBSTER, Director

G. L. BOWIE, Director

AUDITORS' REPORT

To the Policyholders, Shareholders and Directors of The Northern Life Assurance Company of Canada:

We have examined the balance sheet of The Northern Life Assurance Company of Canada as at December 31, 1976 and the statements of income, retained earnings and investment reserve for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances; the amounts required to provide payments guaranteed under insurance and annuity contracts, the dividends to be paid to policyholders, the agents' pension fund and the deposit administration funds were determined and certified by the company's actuary.

In our opinion, based on our examination and the certificate of the company's actuary, these financial statements present fairly the financial position of the company as at December 31, 1976 and the results of its operations for the year then ended in accordance with accounting practices prescribed or permitted by the Department of Insurance of Canada.

London, Canada
February 4, 1977.

(Signed) CLARKSON, GORDON & CO.
Chartered Accountants

	1976	1975
LIABILITIES		
Policy reserves	\$103,367,710	\$ 97,286,224
Policy benefits	1,610,769	1,711,221
Policyholders' funds on deposit	8,556,464	7,711,595
Policyholders' dividends	2,027,612	1,881,489
Deposit administration and agents' pension funds	3,976,565	3,461,865
Mortgages payable on income producing real estate	453,456	459,953
Segregated funds	1,809,903	1,402,456
Other liabilities	1,126,323	1,063,406
	<u>122,928,802</u>	<u>114,978,209</u>

POLICYHOLDERS' AND SHAREHOLDERS' EQUITY

Share capital—		
Authorized, issued and fully paid 10,000 shares of \$100 par value each	1,000,000	1,000,000
Retained earnings	7,145,982	3,809,493
Investment reserve (note 5)	5,700,000	8,700,000
	<u>13,845,982</u>	<u>13,509,493</u>
	<u><u>\$136,774,784</u></u>	<u><u>\$128,487,702</u></u>

(See accompanying notes to the financial statements)

ACTUARY'S CERTIFICATE

Policy reserves for life and health insurance policies have been determined using valuation methods, tables of probabilities and rates of interest appropriate to the policies concerned and to the circumstances of the Company. Total policy reserves shown in the balance sheet as at December 31, 1976, including such reserves in the segregated funds, are in excess of the minimum reserves permitted under the Canadian and British Insurance Companies Act, and in my opinion, make good and sufficient provision for all unmatured obligations of the Company guaranteed under the

terms of its policies. The reserves for and method of funding of the staff insurance and pension benefits have been determined using assumptions that are adequate and appropriate and methods consistent with the sound principles established by precedents or common usage within the actuarial profession.

(Signed) J. D. McFarlane, FSA, FCIA
Vice-President, Insurance Operations
and Actuary

February 4, 1977

statements of retained earnings and investment reserve

year ended December 31, 1976

(with comparative total amounts for 1975)

	Participating Account	Non-Participating Account	Shareholders' Account	1976	TOTAL 1975
RETAINED EARNINGS					
Balance, beginning of year	\$ (4,441,748)	\$ 7,130,271	\$ 1,120,970	\$ 3,809,493	\$ 7,033,527
Add (deduct):					
Net income for the year	477,664	(74,681)	403,334	806,317	242,781
Change in carrying value of investment in subsidiary to equity basis of accounting (note 4)	18,729	9,035	516	28,280	(753,302)
Decrease in subsidiary's investment reserve during year (note 4)	99,868	46,841	2,815	149,524	137,995
Adjustment of purchase price for shares of subsidiary	188,972	91,162	5,210	285,344	
Write down of carrying value of selected stocks (note 7)	(522,957)	(245,280)	(14,739)	(782,976)	
Transfer from (to) investment reserve	2,071,200	882,300	46,500	3,000,000	(2,700,000)
Adjustment of prior years' corporate income taxes					(1,508)
Dividends to shareholders			(150,000)	(150,000)	(150,000)
Balance, end of year	<u>\$ (2,108,272)</u>	<u>\$ 7,839,648</u>	<u>\$ 1,414,606</u>	<u>\$ 7,145,982</u>	<u>\$ 3,809,493</u>
INVESTMENT RESERVE					
Balance, beginning of year	\$ 6,006,058	\$ 2,558,994	\$ 134,948	\$ 8,700,000	\$ 6,000,000
Transfer from (to) retained earnings	(2,071,200)	(882,300)	(46,500)	(3,000,000)	2,700,000
Balance, end of year	<u>\$ 3,934,858</u>	<u>\$ 1,676,694</u>	<u>\$ 88,448</u>	<u>\$ 5,700,000</u>	<u>\$ 8,700,000</u>

(See accompanying notes to the financial statements)

notes to financial statements

year ended December 31, 1976

1. BASIS OF ACCOUNTING

The accompanying financial statements have been prepared on the basis of accounting practices prescribed or permitted by the Department of Insurance of Canada for reporting statutory annual statements filed with them. These requirements differ in some respects from generally accepted accounting principles followed by other types of business enterprises. The principal differences include:

- Certain assets, such as office furniture and other non-admitted assets, are written off as expenses in the year acquired.
- The costs of acquiring business are written off as expenses in the year incurred, rather than over the periods expected to be benefited.
- Income taxes are provided for on the basis of the "taxes payable" method.

2. PREMIUMS

This income was derived as follows:

	1976	1975
Life insurance		
Participating	\$10,934,440	\$10,389,024
Non-participating	4,882,942	4,534,468
Annuities		
Participating	2,281,054	2,558,928
Non-participating	418,089	379,015
Health insurance	1,599,523	1,223,006
Supplementary contracts	77,003	34,724
	<u>\$20,193,051</u>	<u>\$19,119,165</u>

3. NET INVESTMENT INCOME

Interest, dividends and rents	\$10,038,604	\$ 9,508,817
Net capital gains (losses)	(178,401)	10,517
	<u>9,860,203</u>	<u>9,519,334</u>
Administrative expenses	293,566	273,583
Real estate expenses and taxes	64,368	681,506
Depreciation of real estate	11,800	11,800
	<u>369,734</u>	<u>966,889</u>
	<u>\$ 9,490,469</u>	<u>\$ 8,552,445</u>

4. INVESTMENT IN SUBSIDIARY

The investment in The Personal Insurance Company of Canada, a controlled corporation, has been shown on the accompanying financial statements on an equity basis. That is, the carrying

value of the investment has been adjusted to reflect the Company's share of net income or loss of the subsidiary since acquisition of control, the Company's gain or loss on issue of treasury shares to other parties and the Company's share of net transfers from the subsidiary's investment reserve to its retained earnings.

The Company's share of the 1976 income of the subsidiary was \$210,647 (\$209,188 loss in 1975) and has been shown as a credit to the Company's income. The subsidiary's investment reserve was decreased during the year and the Company's share of this decrease amounted to \$149,524 (\$137,995 in 1975) which has been included as a credit to retained earnings for the year. In addition, the subsidiary issued 35,000 shares from treasury during 1976 (31,216 in 1975) with the result that the percentage ownership by The Northern Life Assurance Company of Canada of the subsidiary at December 31, 1976 was reduced to 66.667% from 80.8085%. The net book value of the underlying assets at the date of issue exceeded the issue price of the treasury shares. The Company's share of the resulting loss amounted to \$44,030 (\$153,675 gain in 1975) and is included in the Company's income for the year.

The effect of the above items on the carrying value of the investment in the subsidiary is summarized below:

	1976	1975
Balance, beginning of year, as previously reported	\$1,451,180	\$1,368,698
Add adjustment in carrying value of investment with respect to over-provision of prior years' income taxes	28,280	
Adjusted balance, beginning of year	1,479,460	1,368,698
Add (deduct):		
Share of income (loss) for year	210,647	(209,188)
Decrease in investment reserve	149,524	137,995
Gain (loss) on issue of treasury shares	(44,030)	153,675
Balance, end of year	<u>\$1,795,601</u>	<u>\$ 1,451,180</u>

5. ASSET VALUATION

- Bonds, debentures and stocks are carried at cost or amortized cost. In aggregate, these values exceed the values permitted by the Canadian and British Insurance Companies Act by approximately \$5,669,000 against which the Company carries a reserve of \$5,700,000.

notes to financial statements

year ended December 31, 1976

(Continued)

- (ii) Mortgages are carried at outstanding principal balances.
- (iii) Income producing real estate is carried at cost less accumulated depreciation of \$171,128 (\$159,328 in 1975).
- (iv) Segregated fund investments are carried at market.

6. SHAREHOLDERS' ACCOUNT

Distribution of earnings to policyholders and shareholders is determined by the Board of Directors. For the participating account, 90% of the amount distributed is allocated for dividends to policyholders and 10% for the shareholders' account. This complies with Canadian insurance law governing the allocation of participating account earnings between policyholders and shareholders. For 1976, this allocation amounted to \$222,840. In addition, the shareholders' account was credited with \$180,494 of net investment earnings.

7. WRITE DOWN OF SELECTED STOCKS

As at January 1, 1976, certain selected stocks, on which it appeared unlikely that a recovery of their cost could be attained, were written down to their market value. This write down amounted to \$782,976 and has been charged directly to retained earnings.

The Company's normal policy is to reflect gains or losses, as realized, through the income statement.

8. ANTI-INFLATION ACT AND REGULATIONS

The Company, by reason of its association with Prenor Group Ltd., is subject to mandatory compliance with the federal Anti-Inflation Act and Regulations.

Management is of the opinion that the company is in compliance.

9. ACCOUNT CLASSIFICATION

The grouping of accounts for the year 1975 has been changed to conform with that adopted for 1976.

branch offices and general agencies group sales offices

BRANCH OFFICES AND GENERAL AGENCIES

EDMONTON, ALTA.

— D. D. Gibb

HALIFAX, N.S.

— E. C. Parsons, C.L.U.

HAMILTON, ONT.

— D. W. Weekley

KITCHENER, ONT.

— T. G. Fitzpatrick

LONDON, ONT.

— M. O'Brien, C.L.U.

— *W. K. Schaufelberger
and R. B. Duffus

MONTREAL, P.Q.

— J.-P. Bourgeois, C.L.U.

— *B. B. Brown, C.L.U.

— *A. Charest

— *R. Legault

— *H. A. Pauley

— *M. J. Primeau

— *L. Sheff and J. Weiser

— A. Triffon, C.L.U.

OTTAWA, ONT.

— C. A. Cameron

QUEBEC CITY, P.Q.

— H. L. LeBlanc, C.L.U.

ST. CATHARINES, ONT.

— P. Vasarins, C.L.U.

TORONTO, ONT.

— *P. Bosa, C.L.U.

— *D. C. Day, C.L.U.

— *M. Palermo

— J. N. Sandham, C.L.U.

— *S. Sorbara

— *D. C. Standon, C.L.U.

WINDSOR, ONT.

— R. W. Booth

WINNIPEG, MAN.

*General Agents

GROUP SALES OFFICES

EDMONTON, ALTA.

— W. B. McAthey, C.L.U.

LONDON, ONT.

— A. J. Balston

MONTREAL, P.Q.

— J. P. Veilleux

TORONTO, ONT.

— D. G. Phillips
